Managing Base Operating Support (BOS) Like A Business

by Colonel Larry Spencer

We are short of money, so we must start to think.

—Lord Rutherford

Today's financial challenges indeed cause us all to pause and think. Steady declines in BOS funding have severely strained our ability to support our warfighting customers, maintain base infrastructure, and provide adequate quality of life programs. This article discusses a new way of looking at these funding shortfalls—a new way of doing business. Air Force Materiel Command (AFMC) has ushered in a process referred to as Business Area Management that has revolutionized funds management and has literally changed the way we think and act. This new process, which is grounded in the principle of managing *output* instead of *input*, results in increased efficiency, better cost control, and a more involved workforce.

In a nutshell, this process provides visibility into the total cost of doing business so those costs can be examined and analyzed. The objective of this analysis is to reduce costs and/or improve efficiencies. There are six key steps in this process: (1) Identifying the products and services to be provided (output), (2) Determining the costs associated with providing those services (unit costs) at a prescribed level of quality, (3) Estimating the total break-even value of products and services provided (revenue), (4) Recording/tracking resources consumed to provide those services on an accrual basis (expenses), (5) Examining the relationship between revenue and expenses (Net Operating Result), and (6) Tracking the performance level or quality of services provided (business performance indicators).

I realize terms like revenue and unit costs are typically not associated with BOS management and perhaps, on the surface, appear incongruent. Therefore, I will cover these concepts in a bit more detail during the remainder of the article. However, for now, one way to frame this concept is to consider how a business operates; they *earn* revenue for services provided, not vice versa! Put another way, a new business just starting out would first, determine what they are going to produce or what service they will provide, figure the cost of production, to include materials, overhead, labor, etc., and then establish a sales price. I call this *putting the horse before the cart*. To do otherwise would quickly send any business into bankruptcy. Yet, we oftentimes focus on the sales price first (or in our case budget authority), and then concentrate on what products or services we will provide and the cost of production; something to keep in mind as we go through this process.

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Establishing A Management Structure

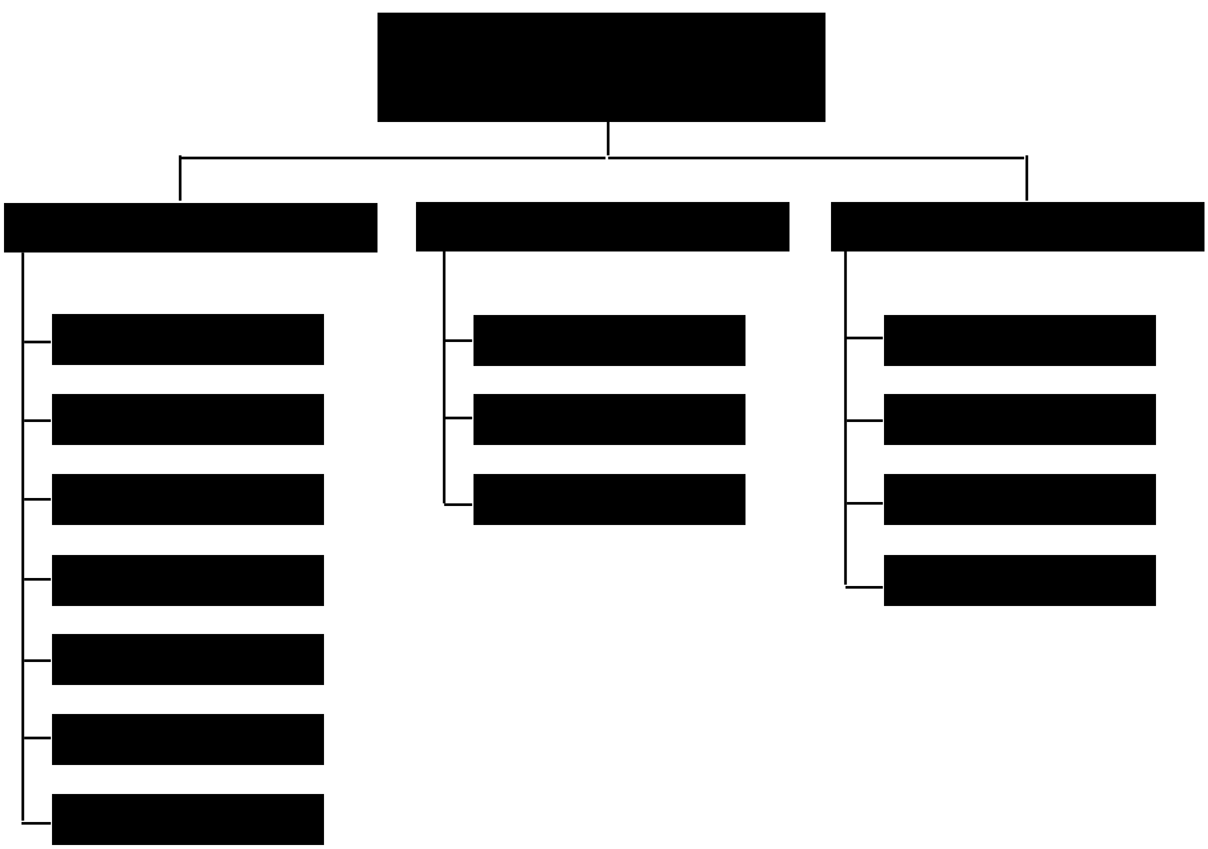
The implementation of this new process in AFMC has been a true success story. Since AFMC is such a diverse enterprise, the command has divided operations into eight distinctive business areas—each headed by a chief operating officer (COO) at AFMC headquarters. Base operating support is defined as the Installation and Support (I&S) Business Area (the area I'll focus on in this article) and the headquarters COO is the Command Civil Engineer. This COO structure is mirrored at base/unit level except the base COO for I&S is typically the Air Base Wing Commander. As the COO for Hill AFB I am responsible for developing an annual business plan (how I plan to operate during the year) and a strategic plan that is an extension of the Air Force and AFMC strategic plans and used to develop the command POM.

The mission of the I&S business area is to support the missions and people at Hill AFB, the Utah Test and Training Range (UTTR), and deployed locations with quality facilities, environments, and support services, at the lowest possible cost. I&S customers include the entire base population in all business areas, tenant organizations, dependents, and retirees.

The Nuts and Bolts or Outputs and Inputs

If there is one thing my previous financial management experience taught me, it was the concept of *historical* budgeting. To be more specific, the lion's share of budgets I and others prepared in the past were based on previous years spending trends. In short, that concept says that if it costs $100 to perform a given mission last year, barring any significant mission change, it should cost $100 in the budget year (excluding inflation). Over the years, one thing that has bothered me about that concept is; who says (or validated) the $100 spent in previous years is accurate? Even more critical, what exactly did we produce for the money we obligated—what was our output, what was the cost of that output and who or what regulation directed the activity.

I&S Business Area
Work Breakdown Structure (WBS)



That brings us to the first step in this process, determining what exactly it is that we produce or deliver. To facilitate this effort an I&S work breakdown structure (WBS) was developed. As the illustration above depicts, I&S was divided into three business lines that were further subdivided into product lines.

The next derivative of this process was the development of actual output measures. Relating back to how a business operates, this is our actual product or service provided. Output standards and cost measures provide the basis for determining the true costs of doing business. We'll discuss the specifics of how costs are developed later; however, to give you an idea of the type of output measures used, following are some examples for the Services Product line: Fitness Center—hours of operation, Mortuary & Honor Guard—number of ceremonies, Military Dining Facilities—number of meals served, and Lodging—number of bed nights.

All totaled, there are 60 output measures that serve as the foundation for analysis and cost development. More specifically, output measures accommodate the development of the full cost of production at a given quality standard. These production costs include all supplies, equipment, TDY, etc., and labor costs associated with delivering our product or service. An accurate accumulation of these resources is critical because they form the basis for which the per output value, or unit cost, is determined. Unit costs are extremely important to this process because they provide a point-of-departure for cost reductions. Additionally, they serve as a key part of the mathematical equation to calculate revenue.

For the purposes of managing BOS like a business, revenue is defined as an estimate of the dollar value of products or services. In other words, think of revenue like the price we would get from a paying customer for our services, minus a profit margin. It is essentially the components of output quantity at the prescribed quality and unit costs. In mathematical terms, output times unit cost equals revenue. At the beginning of each year, *planned* revenue is calculated for each product line. During execution, *actual* revenue is tracked against the plan. Calculating revenue provides valuable insight into the relationship between what is produced, the quantity, and the total cost of production. To complete the financial picture, revenue should be compared to expenses.

An expense is the measure of the total cost of resources consumed, including overhead. In this context, the term resources does not specifically refer to money; but rather the things we spend money on, like labor, training, supplies and equipment, service contracts, etc. This distinction is important because for service contracts, as an example, *money* is obligated at the beginning of the fiscal year; however, the resource itself is used incrementally throughout the year. Comparing expenses with revenue provides valuable insight into the financial health of BOS activities.

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For example, if expenses exceed revenue for a given month, that could indicate an increase in production costs (which should send-up a red flag) or simply an unplanned purchase of equipment. Either way, this comparison would lead to an examination of costs versus output—a critical link in the quest for cost efficiency and quality services. As is the case with revenue, planned expenses are calculated at the beginning of the year and tracked monthly against actual. Before moving on to performance, there is an additional relationship between revenue and expenses that's important to the process; a term referred to as net operating result (NOR).

NOR simply represents the delta between revenue and expenses. Theoretically, when revenue and expenses are identical, the NOR is zero. However, since our objectives are to seek unit cost reductions and/or find smarter, more efficient methods to increase output, our goal is to show a positive NOR, which in a business would indicate a profit. For the I&S business area, a profit, in theory, indicates money saved that can be redirected to critical unfunded requirements, or, efficiencies gained that allow increased output at the same or lower cost. With the financial picture complete, a focus on performance provides a balance that keeps the emphasis on quality and customer satisfaction.

AFMC headquarters functional experts, in concert with base level coordination, developed 86 business performance indicators (BPIs) to track quality levels of performance. BPIs range in scope from

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infrastructure condition indices to fuels delivery time to environmental enforcement actions. A unique feature managing BPIs is the command standards assume units are funded at the *standard* level. When funding is reduced or constrained, COOs have the option of proposing a *planned* level of performance that is below the command standard. Deviations must be approved by the command I&S COO and the Corporate Board structure. If approved, deviations become part of a unit's business execution plan that will be tracked against actual performance each month. The illustration above depicts a typical example of how the data is portrayed in chart format for the Support Services business line.

Bringing It All Together

Each quarter, unit level COOs brief the AFMC Commander on performance against the business execution plan. These updates provide an across-the-command look into the financial and performance health of the command, highlight areas that fell short of the goal, and more importantly, provides get-well plans to get back on track as applicable. Additionally, it provides valuable cross-feed between bases that have either found ways to lower operating costs or improve work efficiency.

Another very important benefit of this process is, unlike the input method of funding, it puts a face on BOS requirements. Analyzing revenue and expenses in relation to BPIs helps to characterize the level of performance that can be provided given a certain level of funding. This is important because as funding increases or decreases, we can clearly articulate, from an output perspective, the impact on mission accomplishment. As I'm sure you will agree, defending cuts to BOS in the past has been difficult at best. We all intuitively know BOS reductions profoundly affect the mission; however, the specific impacts have been difficult to quantify. The output to expense to performance analysis shows specifically what services or products will be curtailed or eliminated as funding is reduced. In short, this analysis helps to better understand and defend requirements.

I touched on unit cost only briefly but in reality, it holds the key to the real payoff of this process. Remember, a key tenet in the business management process is the people responsible for producing products and services must know and understand the total cost and the per-unit cost of their individual products and services. In my view, therein lies the real value; getting everyone to understand the full cost of doing business so those costs can be analyzed for potential reduct [redacted] involvement were recently confirmed by two local industries I had the [redacted] forced to reduce costs based on changes in the market.

Without fail, the senior staffs of both companies stressed that the [redacted] biggest payoff came from the employees themselves. Similarly, the focu [redacted] ment of unit costs have allowed the I&S workforce to become knowledge [redacted] product or service like never before. The benefits of that knowledge have [redacted] ness of the total cost of doing business and more importantly, a flood [redacted] costs.

Before closing, it would be misleading not to admit this process is not [redacted] in our understanding of managing BOS like a business it is clear there [redacted] dards, metrics, unit costs, etc. As with any process or system, the final [redacted] components. With that in mind I&S COOs meet periodically to discus [redacted] tions for refinement. In fact, FY98 was considered a “year of learning” [redacted] understanding. Improvements implemented during FY98 have alread [redacted] performance. As the old saying goes, “success is a journey, not a destir [redacted]

To summarize, the financial challenges we face today cannot be solve [redacted] For years, industry has wrestled with declining sales and market swin [redacted] that continually search for that financial and quality edge. Managing [redacted] managing a business; however, we can use those same principles to [redacted] Business Area Management is designed to break-down both work and [redacted] analyzed for efficiency and reduction. As DoD employees we have a [redacted] good stewards of taxpayer dollars. As taxpayers, we owe it to ourselve [redacted] efficient and cost effective. Our experience has shown this new process [redacted] We can and should manage BOS like a business.

About the Author

Colonel Larry O. Spencer is comma [redacted] Hill AFB UT. He received his Bac [redacted] trial engineering technology from Sou [redacted] Carbondale IL in 1979 and his Master [redacted] management from Webster College, St [redacted] assignment was Commander, 72d Supp [redacted] to that he was Assistant Chief of Staff, [redacted] Washington DC. He’s also a member [redacted] tary Comptrollers.